Budget Rules and the GATT

By STEVE CHARNOVITZ

Approval of the Uruguay Round trade agreement faces a difficult procedural obstacle in Congress: compliance with pay-as-you-go budget rules, which require making up for lost tariff revenues with either spending cuts or tax increases.

Rather than wrestle endlessly with this issue, Congress should exempt trade-liberalizing agreements from the pay-as-you-go requirement.

The government estimates that the Uruguay Round accord will cost the Treasury around $14 billion in tariffs over five years. The Clinton administration now is struggling to find an equivalent amount in tax increases and spending cuts.

Certainly, further action is needed to reduce the federal deficit, which will top $284 billion this year. But it is important to distinguish ends from means. While the pay-as-you-go rule is a useful discipline, it is not an end in itself. Blind adherence to it is not a virtue.

Some analysts suggest tinkering with the budget rules rather than exempting trade agreements from them. Under their scenario, the Congressional Budget Office, which evaluates the budgetary effects of government programs, would count the increased tax revenues associated with a trade deal as well as the lost tariff revenues.

Such a change would likely eliminate the need for additional tax increases or spending cuts, since the additional tax receipts gained from a higher level of economic activity spawned by the Uruguay Round agreement would easily dwarf the $14 billion loss.

Budget purists, however, object to any changes in the way the government estimates the budgetary effects of new laws or regulations. They argue that sponsors of hundreds of programs would clamor for similar rights to count indirect or anticipated budgetary benefits.

For example, advocates of increased funding for worker training could argue that training boosts tax revenues by enabling workers to earn higher wages.

Indeed, the budget purists have a point. If the Congressional Budget Office had to apply such an analysis to all government programs, the effect could be chaotic. At a minimum, political preferences would intrude, and the budget evaluation process would lose even its current level of objectivity.

There is, however, a way to acknowledge the budgetary contributions of trade-liberalizing agreements without opening the door to this kind of chaos. That method is to give trade pacts an exemption from the pay-as-you-go budget rules.

There are several reasons why trade pacts should receive such an exemption while other programs should not. First, the budget rules, as enacted in 1990, are inconsistent with the U.S. trade negotiation and approval process.

The president must be able to promise foreign governments that whatever trade pacts are reached will be considered by Congress without any procedural impediments. If the president has to face additional hurdles to get an agreement considered by the Congress — such as a pay-as-you-go discipline or an environmental impact statement — his ability to negotiate the best possible agreement will be diminished.

Second, requiring that legislation implementing trade agreements be deficit neutral makes it impossible to keep this legislation "clean." Ideally, the legislation should approve and implement the trade agreement and do nothing more. But under pay-as-you-go rules, the implementing legislation would also have to include tax increases, program cutbacks, asset sales or other changes to save $14 billion.

This type of legislation should not be considered under the "fast track" process, which disallows amendments, attenuates debate and sometimes bypasses public hearings. Fast track already is under attack by some public interest groups as "undemocratic" because it short-circuits the usual congressional procedures. Defending fast track gets harder when it is used to modify tax or other laws in order to "pay" for a trade agreement.

There already are precedents for exempting trade policy decisions from strict pay-as-you-go requirements. For example, if the administration imposes trade sanctions under Section 301 of the trade act, it is not required to ensure that the effect on the deficit is nil.

It is not necessary, however, to free all trade legislation from budget disciplines just because trade pacts are exempted. In deciding which measures to exempt, it is important to distinguish between agreements with other countries and unilateral action by the United States. Unilateral moves, such as extending preferential tariff treatment to developing nations, should remain subject to pay-as-you-go rules.

Which groups are likely to oppose exempting trade pacts from budget disciplines? There are three likely candidates: fiscal conservatives who look for any occasion to cut federal spending; opponents of the Uruguay Round deal, who see the budget rules as a potential trap door for the accord; and budget purists who fear any changes in the rules are the first step down a slippery slope.

With any luck, these opponents will look beyond their parochial concerns. Budget rules are a tool, not an icon. A tool that does not work well, and even interferes with obtaining results, should be discarded.

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